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RUEHNE/AMEMBASSY NEW DELHI 0230
RUEHHK/AMCONSUL HONG KONG 0892
RUEHOT/AMEMBASSY OTTAWA 0696
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC
RUCNDT/USMISSION USUN NEW YORK 0689
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UNCLAS SECTION 01 OF 02 ULAANBAATAR 000362

SENSITIVE

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SUBJECT: Mongolian Uranium Deposit Update

REFS: A) 07 ULAANBAATAR 0238
B) 07 ULAANBAATAR 0267
C) 07 ULAANBAATAR 0630

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CAUTION: CONTAINS PROPRIETARY INFORMATION

¶1. (SBU) SUMMARY: Western Prospector Group (WP) CEO Eric Bohren (protect) discussed uranium mining issues in Mongolia with Emboffs on July 10 and discussed his company's near-term plans and the uranium mining business. Bohren made clear that Western Prospector, a Vancouver-based firm, remains interested in Mongolia's uranium and hopes to process raw uranium into value-added "yellowcake" in Mongolia. Bohren said Mongolian officials appear to prefer a "third-neighbor" policy in the mining sector, adding that his firm remains concerned over possible GOM moves to nationalize uranium holdings. WP does not favor outright nationalization, which would see the company lose its property under the currently proposed 51%-state-equity position. However, WP states that it could support a production-sharing contract model, which was included in the latest mining-law amendments before Parliament. WP announced that it has received a purchase offer by a Hong Kong-based investment fund, suggesting that international interest in Mongolia's uranium remains strong. END SUMMARY.

¶2. (U) Eric Bohren, CEO of Western Prospector Group (WP), met on July 10 with Acting Econ/Comm Head and Econ/Pol Intern to discuss issues related to uranium mining in Mongolia. Bohren sought general information about the post-election political scene in Mongolia, and discussed his company's near-term plans and the uranium mining business.

¶3. (SBU) Bohren stated that despite Mongolia's weak legal framework and stalled mineral legislation, there is still high interest among investors in WP's Dornod province uranium assets, due to aggressive Russian, Chinese and Indian plans for expanded involvement in nuclear power. Bohren hinted that western firms are preferred as strategic partners, but that Chinese and Russian partners will be necessary for transportation. In a positive sign from the GOM, representatives from the GOM signaled to Bohren that the GOM will

not influence WP's decisions on its strategic partners and that they prefer a "third neighbor" policy with respect to uranium mining.

¶4. (SBU) In the short term, WP plans to sign strategic partnerships with companies in three areas: political, financing and transport. Bohren was reticent to mention the names of potential partners, but noted that WP was seeking what he called a first-tier firm or firms from Russia, Japan, the U.S. or other western nations that could bring values in all three areas, followed by second-tier firms that had strengths in one or more (but not all three) of the key areas. He did mention U.S. power supplier Exelon as a potential first-tier partner, and guardedly referred to discussions with Russian authorities about transport and processing issues. He specifically dismissed China and France as mining partners. (Note: French state-owned nuclear power, uranium mining giant Arreva is active in Mongolia. End Note.) China was dismissed because of Mongolian resistance to allowing China any control over Mongolian uranium supplies. France was dismissed because of concerns about Arreva's behavior in Mongolia, with which WP does not wish to become associated. (Comment: Bohren and others have criticized Arreva for being too generous with its hospitality, both in Mongolia and in France. Bohren referred to wine-soaked meetings held for Mongolian officials that may have put off some Mongolian officials, who feared being tarred with claims that they were bought off by the French. True or not, this perception may exist, and WP does not want to be stained by it. End Comment.)

Minerals Legislation Outcome Still Uncertain

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¶5. (SBU) Bohren made clear that he believes that his company's long-term prospects are strong, and that the main obstacles are political. Most foreign mining firms still prefer a production-sharing (versus an equity-sharing) minerals law, and WP is no exception. If the election results hold, the MPRP's majority will position Parliament to pass laws more efficiently, but it is still unclear which direction the next government will take with regard to mining. Major decisions on mineral laws will likely be delayed in the near term, while the GOM sorts out allegations of election fraud.

Western Firm Plans to Process Raw Uranium in Mongolia

¶6. (SBU) Bohren said his company plans to process uranium ore into the value-added product, "yellowcake", in Mongolia, creating higher revenues for the GOM. (Note: Yellowcake, uranium oxide concentrate, is the end product of the mining and milling stages. This is the form in which uranium is sold prior to further processing into fuel grade product. End Note.) He contrasted his company's plan against probable Russian and Chinese plans to process the raw uranium outside of Mongolia. He believes this will be a selling point for his firm during negotiations with the GOM. (Note: WP and other western firms with stakes in uranium have discussed processing ore into yellowcake and then exporting that product only to countries with capacity to process the product for nuclear power production -- Russia, the U.S., India, the E.U., and China, among others. Enrichment of yellowcake in Mongolia has until now not been mentioned by western firms, but the Russian government -- through its nuclear power agency Rosatom -- has indicated that it might consider such processing in Mongolia. Bohren and others dismiss this possibility as fairy tale. Technical and financial issues aside, Bohren wonders why the Russians would surrender any control over downstream processing to a neighbor with absolutely no oversight capacity. Discussions about a Russian-built nuclear plant for Mongolia are seen in similarly skeptical light by industry players. End Note.)

Tinpo purchases Western Prospector Group

¶7. (SBU) The proposed purchase of WP by Tinpo Holdings Industrial Company Limited (Tinpo) on July 15 supports Bohren's contention that western interest in Mongolian uranium remains strong. WP announced

the execution of a definitive agreement for (Tinfo) to acquire all of WP's outstanding common shares (about 81%) for C\$74 million (US\$73,850,000) in cash. Tinfo is a privately owned investment company based in Hong Kong, but financed by western investors, according to Bohren. The remaining 19% will continue to be held by Anchorage, an American hedge/equity investment fund. Bohren stated that Tinfo and Anchorage have signaled that they will continue to implement the strategic development plan crafted by WP's current management team. In addition, WP will continue plans to align with potential strategic partners, the GOM and other key stakeholders, toward the successful implementation of a uranium production strategy in Mongolia.

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